18 September 2020

ALPHA REAL TRUST LIMITED ("ART" OR THE "COMPANY" OR THE "GROUP")

TRADING UPDATE AND DIVIDEND ANNOUNCEMENT

ART today publishes its trading update for the quarter ended 30 June 2020 and the period up until the date of this announcement. The information contained herein has not been audited.

About the Company

ART targets investment, development, financing and other opportunities in real estate, real estate operating companies and securities, real estate services, infrastructure, infrastructure services, other asset backed businesses and related operations and services businesses that offer attractive risk-adjusted total returns. ART currently focusses on asset-backed lending, debt investments and high return property investments in Western Europe that are capable of delivering strong risk adjusted cash flows. The portfolio mix at 30 June 2020, excluding sundry assets/liabilities, was as follows:

	30 June 2020	31 March 2020
High return debt	29.8%	31.9%
High return equity in property investments	25.2%	26.1%
Other investments	2.7%	6.2%
Cash	42.3%	35.8%

The Company currently plans to invest the majority of its cash into secured senior or secured mezzanine debt in due course and subject to how the Covid-19 situation unfolds.

The Company's Investment Manager is Alpha Real Capital LLP ("ARC").

Highlights

- NAV per ordinary share 211.2p as at 30 June 2020 (31 March 2020: 213.7p).
- Adjusted earnings for the quarter ended 30 June 2020 of 1.0p per ordinary share (31 March 2020: 6.4p per ordinary share).
- For the quarter ended 30 June 2020 a basic earnings loss of 2.6p per ordinary share (31 March 2020: earnings of 5.8p per ordinary share).
- Declaration of a quarterly dividend of 1.0p per ordinary share expected to be paid on 23 October 2020.
- Robust financial position: a cautious approach to new investment is being taken and cash conserved as the Covid-19 situation unfolds.
- Diversified portfolio of secured senior and secured mezzanine loan investments; as at 30 June 2020, the size of ART's secured loan portfolio was £37.2 million, representing 29.8% of the investment portfolio. The portfolio has an average LTV of 55.7% based on loan commitments (with mezzanine loans having a LTV range of between 47.4% and 76% whilst the highest approved senior loan LTV is 73.1%).
- Capital recycling: the sale of the Unity and Armouries development site in Birmingham completed at the £4.5 million book value.
- Capital recycling: post period end, the sale of the final asset in the UK industrial portfolio completed for £3.8 million, a price marginally ahead of book value.
- Galaxia update: in line with the Supreme Court of India ruling in favour of ART, Logix have deposited INR 292m (£3.1m) with the court, of which INR 260m (£2.6m) has been recovered by ART post period end; the balance of the court award is to be funded following a sale of the Galaxia SPV that owns the development land.

Investment summary

Portfolio overview as at 30 June 2020

Investment name Investment type	Carrying value	Income return p.a.	Investment location	Property type / underlying security	Investment notes	% of portfolio[1]
High return debt (29.8%)						
Secured senior finance						
Senior secured loans (excluding committed but undrawn facilities of £5.8 million)	£18.0m [2]	9.4% [3]	UK	Diversified loan portfolio focussed on real estate investments and developments	Senior secured debt (during the period the average senior facilities commitments were £23.0m)	14.4%
Secured mezzanine finance						
Second charge mezzanine loans	£19.2m [2]	14.3% [3]	UK	Diversified loan portfolio focussed on real estate investments and developments	Secured mezzanine debt and subordinated debt (during the period the average mezzanine facilities commitments were £19.4m)	15.4%
High return equity in property investments (25.2%)						
H2O shopping centre						
Indirect property	£17.8m (€19.6m)	2.0% [4]	Spain	Dominant Madrid shopping centre and separate development site	30% shareholding; medium term moderately geared bank finance facility	14.3%
Long leased industrial facility, Hamburg						
Direct property	£7.5m [5] (€8.3m)	7.3% [4]	Germany	Long leased industrial complex in major European industrial and logistics hub	Long term moderately geared bank finance facility	6.0%
Industrial asset, Wolverhampton						
Direct property	£4.4m	8.9% [6]	UK	High-yield commercial UK property	100% shareholding; no external gearing	3.5%
Cambourne Business Park						
Indirect property	£1.8m	9.7% [4]	UK	High-yield business park located in Cambridge	Medium term moderately geared bank finance facility	1.4%
Other investments (2.7%)						
Galaxia						
Joint venture in arbitration	£2.6m (INR 260m)	n/a	India	Development site located in NOIDA, Delhi, NCR	Invested capital recovered; legal process ongoing to collect full arbitration award	2.1%
Realhousingco						
Residential Investment	£0.6m	n/a	UK	High-yield residential UK portfolio	100% shareholding; no external gearing	0.5%
Healthcare & Leisure Property Limited						
Indirect property	£0.1m	n/a	UK	Leisure property fund	No external gearing	0.1%
Cash and short-term investments (42.3%)						
Cash [7]	£52.7m	0.1% [8]	UK	'On call' and current accounts		42.3%

[1] Percentage share shown based on NAV excluding the company's sundry assets/liabilities
[2] Including accrued interest/coupon at the balance sheet date
[3] The income returns for high return debt are the annualised actual finance income return over the period shown as a percentage of the average committed capital over the period
[4] Yield on equity over 12 months to 30 June 2020
[5] Property value including sundry assets/liabilities and cash, net of associated debt
[6] Annualised income return, post tax
[7] Group cash of £54.3m excluding cash held with the Hamburg and Wolverhampton holding companies
[8] Weighted average interest earned on call accounts

Further to the annual results announcement on 12 June 2020, the following are key investment updates.

The economic and social impact of Covid-19 continues to severely affect the economic backdrop in which the Company operates. ART's investment portfolio benefits from diversification across geographies, sectors and asset types. We continue to take a cautious approach to new investment, including new lending, as we see how Covid-19 unfolds.

In the period prior to the emergence of Covid-19, the Company had focused on recycling capital into asset backed lending while reducing exposure to development risk. In this time of heightened uncertainty, the Company is benefiting from that strategy and it has placed the Company on a robust financial footing.

Diversified secured lending investment

The Company has a diversified portfolio of secured senior and mezzanine loan investments. The loans are typically secured on real estate investment and development assets with attractive risk adjusted income returns. As at 30 June 2020, ART had committed £43.0 million across thirty five loans, of which £37.2 million was drawn.

During the quarter to 30 June 2020, five loans totalling £2.6 million (including accrued interest and exit fees) were fully repaid and a further £2.4 million (including accrued interest) was received as part repayments. Post period end, a further £2.4 million (including accrued interest) was received as part repayments.

The largest individual loan in the portfolio as at 30 June 2020 is a senior loan of £3.4 million which represents 7.9% of committed capital and 2.7% of the Company's NAV.

Portfolio loans are underwritten against value for investment loans or gross development value for development loans as relevant and collectively referred to as LTV in this report. The portfolio has an average LTV of 55.7% based on loan commitments (with mezzanine loans having a LTV range of between 47.4% and 76% whilst the highest approved senior loan LTV is 73.1%).

As at 30 June 2020, 48.7% of the Company's loan investments were senior loans and 51.3% were mezzanine loans, with a weighted average LTV ratio of 57.8% based on commitments, i.e. including amounts available for drawing. The underlying assets in the loan portfolio as at 30 June 2020 had geographic diversification with a London and South East focus. The South of England (including London) accounted for 62%, of which London accounted for 31%, of the committed capital within the loan investment portfolio.

To date, the Company has experienced no defaults but the underlying loan portfolio continues to be closely monitored especially in light of the Covid-19 pandemic. Where it is considered appropriate, on a case by case basis, underlying loan terms may be extended.

Capital recycling

On 11 June 2020, the sale of the Unity and Armouries development site in Birmingham completed at the £4.5 million book value, successfully continuing the Company's strategy of actively recycling capital.

Post period end, the sale of the final asset in the Alpha UK Property Fund Asset Company (No. 2) Limited portfolio of UK industrial assets completed for £3.8 million, a price marginally ahead of book value.

H2O, Madrid

ART has a 30% stake in joint venture with CBRE Global Investors in the H2O shopping centre in Madrid. The government of Spain issued a "stay-at-home" directive to the whole of Spain from 14 March 2020 in response to Covid-19. In line with other shopping centres in Madrid, H2O was able to fully reopen on 8 June 2020, with some stores permitted to open earlier based on their size and activity. During the entire period, the H2O supermarket and the pharmacy were the only shops that remained operational, being considered essential services.

A practical approach is being taken with tenants to manage any rent arrears whilst seeking to protect the long-term value of the centre. Since reopening, visitor numbers have reduced by approximately 30%, although some stores have noted an increased spend per head from the reduced number of customers.

5 tenants, occupying 2,839 square metres and representing 6% of the centre's total leasable area, have entered into insolvency proceedings or have either not reopened their stores as a result of Covid-19 or pre-existing trading difficulties. Some of these tenants were non-performing and had already been paying reduced rents prior to Covid-19.

The above has been partly offset by new leasing activity with a 414sqm restaurant being re-let from a nonperforming tenant to international restaurant brand 'Tony Romas'. A 236sqm large terrace area of a further restaurant unit, where a lease contract was terminated, has been leased to a newly launched brand by one of Spain's larger restaurant franchise groups.

Covid-19 will have a significant impact on the earnings of H2O for the current year. After remaining largely unchanged at the 31 March 2020 valuation date, the 30 June 2020 valuation reduced by -6.2%.

Other investments

Galaxia, India

As announced in February 2020, the Supreme Court of India ruled in favour of ART's dispute regarding its Galaxia investment, a 50:50 joint venture with Logix Group ("Logix") that owns an 11.2 acre development site located in NOIDA, the National Capital Region, India.

In upholding the arbitration award in favour of ART and dismissing Logix's appeal, the Supreme Court ordered Logix to pay ART a total of INR 860 million (£9.2 million at the period end exchange rate). In accordance with the court order, Logix deposited a total of INR 292 million (£3.1 million) with the court. Post period end, INR 260 million (£2.6 million) has been recovered by ART.

Logix is now required to pay the remainder of the liability under the award of INR 568 million. The court permitted Logix to sell the Galaxia site, which was previously charged in favour of ART, in order to raise capital. The site is currently under offer and the sale proceeds will be deposited with the Supreme Court towards the settlement amount. Following a petition by the identified site purchaser, the court has permitted an extension of the original settlement period to November 2020. Failure by Logix to make payment would result in higher interest rates applicable under the arbitration award.

ART has historically recovered INR 215 million (£2.3 million) from amounts previously deposited by Logix with the court. With the INR 260 million (£2.6 million) recovered post period end, ART has now successfully recovered the full amount of its capital originally invested into the Galaxia joint venture.

As at 30 June 2020, the Company carried the joint venture in arbitration in its accounts at INR 260 million (£2.6 million), which is in line with ART's initial investment less amounts recovered over time. ART continues to actively pursue its claim to collect the full arbitration award.

Share buybacks

During the quarter ended 30 June 2020, the Company made no share buybacks.

As at the date of this announcement, the ordinary share capital of the Company is 62,126,086 (including 1,940,797 ordinary shares held in treasury) and the total voting rights in the Company are 60,185,289.

Dividends

The Board announces a dividend of 1.0 pence per ordinary share which is expected to be paid on 23 October 2020 (ex-dividend date 1 October 2020 and record date 2 October 2020).

Scrip dividend alternative

Shareholders of the Company have the option to receive shares in the Company in lieu of a cash dividend, at the absolute discretion of the Directors, from time to time.

The number of ordinary shares that an Ordinary Shareholder will receive under the Scrip Dividend Alternative will be calculated using the average of the closing middle market quotations of an ordinary share for five consecutive dealing days after the day on which the ordinary shares are first quoted “ex” the relevant dividend.

The Board has elected to offer the scrip dividend alternative to Shareholders for the dividend for the quarter ended 30 June 2020. Shareholders who returned the Scrip Mandate Form and elected to receive the scrip dividend alternative will receive shares in lieu of the next dividend. Shareholders who have not previously elected to receive scrip may complete a Scrip Mandate Form (this can be obtained from the registrar: contact Computershare (details below)), which must be returned by 9 October 2020 to benefit from the scrip dividend alternative for the next dividend.

Net asset value (‘NAV’)

As at 30 June 2020, the unaudited NAV per ordinary share of the Company was 211.2p (31 March 2020: audited NAV of 213.7p).

The decrease in NAV is primarily due to the fair value movement in the H2O joint venture investment partly mitigated by the quarterly earnings of the Company.

Foreign currency

The Company monitors foreign exchange exposures and considers hedging where appropriate. Foreign currency balances have been translated at the period end rates of £1:€1.100 or £1:INR93.304, as appropriate.

Strategy and outlook

Covid-19 and the unprecedented actions of Governments to lock-down their citizens and shut-down their economies has severely affected the economic backdrop in which the Company operates. ART’s investment portfolio benefits from diversification across geographies, sectors and asset types. Prior to the emergence of Covid-19, the Company had been focussing on recycling capital into asset backed lending while reducing exposure to development risk. In this time of heightened uncertainty, the Company is benefiting from that strategy and it has placed the Company on a robust financial footing.

ART is committed to its disciplined strategy and investment principles which focus on opportunities that can deliver high risk adjusted returns, while seeking to manage risk through a combination of operational controls, diversification and defensive return structures.

We are taking a cautious approach to new investment, including new lending, as we see how Covid-19 unfolds. This cautious approach, while conserving cash, is likely to significantly reduce earnings in the current year.

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